

A little book about funding

your way from zero to A

Dear startup

This is a very quick **D-I-Y guide** of how to attract funding to your startup - from zero to A.

We've collected some of our most important knowledge about funding and a couple of our greatest tools to move forward - in a book you can put in your pocket and share with your team.

Feel free to contact us anytime for independent advice and a second opinion on how you can change the world with your business ideas and get global success out of it.

All the best,

The Startup & Innovation team at Vaeksthus Copenhagen

What is a startup?

Only startups with a long-term growth potential has the possibility of raising professional funding.

Your startup should as a minimum provide an opportunity for a 10 x return on investment. The company should have a highly innovative solution and a scalable business model for entering an attractive market with a number of identified paths towards exit.

The essential of a startup is growth - everything we associate with startups follows from growth.

Which kind of startups can get funding?

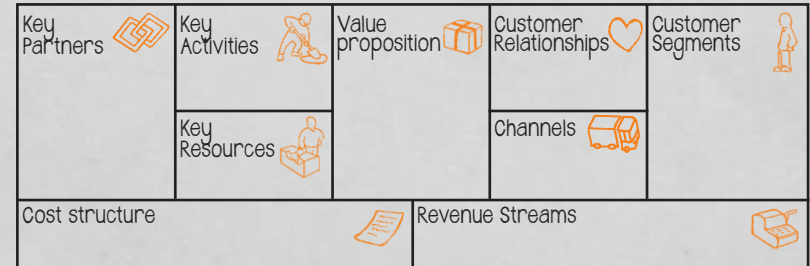
Your startup is relevant to professional investors if:

- the startup has a scalable business model
- is operating in large markets

This makes it possible to grow within a short timeframe, which is interesting for investors, because they will see an option of pulling out their money profitably within a foreseeable period.

Business Model Canvas

What is your business model and do you have more than one? Work with your business model and get more business out of your ideas with business model canvas.



Online version – Download the canvas on

www.businessmodelgeneration.com

Types of investors



FFF Friends, fools and family who believe personally in you and who are willing to lose their money to show how much they love or trust you. Mostly they don't demand anything in return for their money, which can make this kind of funding very attractive.



Angel An angel investor is an affluent individual who provides capital for a startup, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies

Types of investors



VC funds An investment fund that manages money from investors seeking private equity stakes in startup and small and medium sized enterprises with a strong growth potential. These investments are generally characterized as high-risk/high-return opportunities.



Debt An amount of money borrowed by one party from another. Many corporations/individuals use debt as a way of making large purchases, which they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it will be paid back at a later date, usually with interest.

Types of investors

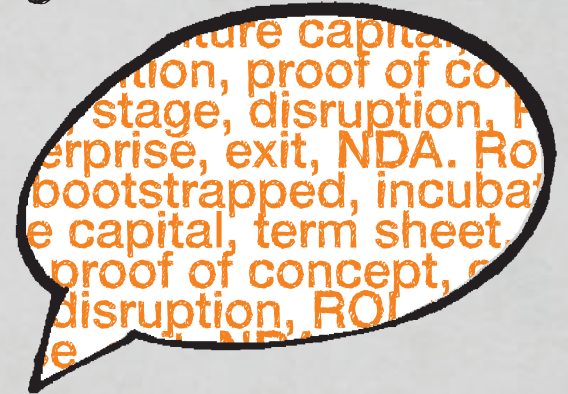


Crowdfunding The use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding makes use of the easy accessibility of vast networks of friends, family and colleagues through platforms like Kickstarter etc., and social media websites like Facebook, Twitter and LinkedIn to get the word out about a new business and attract investors. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives and venture capitalists.



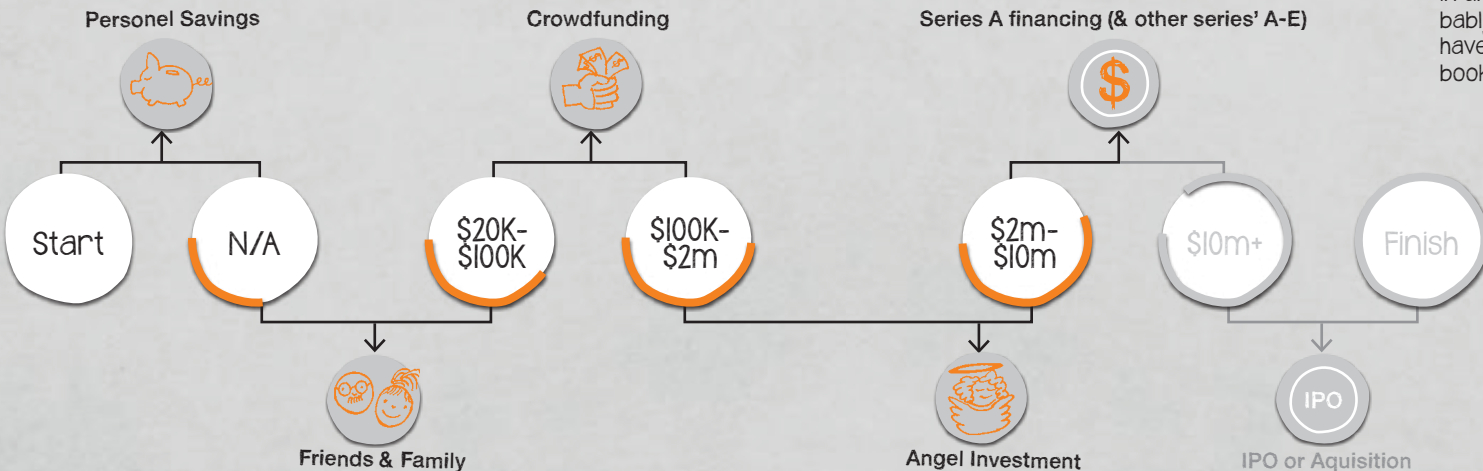
Government Government funding is a catch-all term that describes money provided by government agencies to non-government organizations and individuals. Government funding comes in many forms; some have strict requirements and must be repaid, while other funds do not need to be repaid.

Venture-lingo



Are you familiar with all the terms used about funding and venture capital? Go to Investopedia.com and get familiar with all the words, abbreviations and terms.

The timeline for startups



Crowdfunding can provide funding at any time between idea stage and VC Investment

Series A financing (& other series' A-E)

In this book we only have focus from pre-seed to A. If you have raised money in an A-round, you probably already know all we have written in this little book about funding.

Achieving product / marketfit

When you are before product / marketfit, focus obsessively on getting to product/market fit. Do whatever is required to get to product/market fit. Including changing out people, rewriting your product, moving into a different market, telling customers no when you don't want to, telling customers yes when you don't want to, raising that fourth round of highly dilutive venture capital - whatever is required.

Once you have achieved product/market fit, it's time to accelerate and begin scaling your business. Here's a brief description of what to do at each of the steps before scaling:

- **Promise:** Highlight the benefits described by your “must have” users (those that say they would be very disappointed without your product).
- **Economics:** Implement the business model that allows you to profitably acquire the most users.
- **Optimize:** Streamline a repeatable, scalable customer acquisition process by testing multiple approaches and tracking to improve the right metrics.

What it takes to get an investment

Your workflow must always have focus on what milestones you need to achieve in order to be able to raise your next financing round.

What type of investment are you looking for - which results do you need to document?

On the next couple of pages is some rules of thumb about the results you need to document in pre-seed, seed and A-round, defined from whether your business model is e-commerce, SaaS or a marketplace.

Pre-seed

In this very early stage of scaling, it can be difficult for investors to demand a lot of results, because often there isn't a traction on the product or service yet.

Because of the missing results, it is even more important that you are able to show how unique your idea is, the visions and plans for taking the global markets and present a great team, who can execute your ideas into real business.

On page 20 you can see what your pitch must contain.

Seed round

- **E-commerce:** 100k monthly recurring revenue (MRR)
- **Consumer apps:** 2,5-5K daily active users / 25+% month-over-month (MoM) user growth
- **SaaS:** \$10k MRR. / > 200+% YoY growth on MRR or annual run rate (ARR) basis
- **Marketplace:** \$50K in monthly gross market volume (GMV) / 30-40% MoM growth in GMV
- **Liquidity:** > 10% demand/supply ratio / Transaction velocity: the time it takes to have a transaction clear should be decreasing

A-round

- **E-commerce:** \$1 million monthly recurring revenue (MRR)
- **Consumer apps:** 50K daily active users / 25% month-over-month (MoM) user growth
- **SaaS:** \$50-150K MRR. / > 100% YoY growth on MRR or annual run rate (ARR) basis
- **Marketplace:** \$500K-\$1 million in monthly gross market volume (GMV) / 20-30% MoM growth in GMV
- **Liquidity:** > 10% demand/supply ratio / Transaction velocity: the time it takes to have a transaction clear should be decreasing

Valuation and control

Most entrepreneurs only focus on their pre-money valuation, and often neglect to negotiate terms around control and other terms. This can significantly impact the 'deal' that is entered between entrepreneur and VC/Angel.

Explore the funding world and learn more about liquidation preferences, anti-dilution clauses, voting rights, pro-rata rights and other terms at:

venturehacks.com

Rules for the funding process

The cardinal rule when raising capital is to secure a competitive market for your investment round:

- Research relevant investors
- Make sure you get a warm introduction to these investors
- Run your fundraising with many investors
- Build a sense of demand in the eye of the beholder

Pitch

If you want an investor's attention, you need to explain how you and your team can turn their investment into a 10 x return:

- Tell exactly what you are looking for (money + knowledge)
- Tell about the market and your customer's problems
- Tell about how your product or service solve these problems
- Tell why your customers should buy your product or use your service
- Explain the business model

- Explain your plan for sale and marketing
- Map the competitors
- Introduce your team and explain why they can turn your startup into a success
- Show a budget for 1,3 and 5 years
- Present a status - where are your startup right now?



6 tips for your pitch

1. Make them care - answer the question 'what can you do for me?'
2. Make it easy to join - show all your credibility
3. Leave them wanting more - the secret sauce should be saved for later
4. Have a call to action - let them know exactly what you want from them
5. Be natural - relax and be comfortable with your pitch
6. Test yourself - get as much feedback as possible



How to create an investor pitch

See our fellow consultant, Lasse, tell about how to create a pitch:

webtv.hiph.dk/workshop-finansiering-del-2



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Contact us

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Where to go?

Get a quick overview of events, competitions, crowdfunding platforms, accelerator programs, bootcamps, shared offices, venture funds, public funds and grants, business angels etc. at:

www.inno-overblik.dk

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www.vhhr.dk/a-little-book-about-funding

#alittlebookaboutfunding